EXECUTIVE SECRETARIAT

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15	D/OEA				
16	C/PAD/OEA				
17	SA/IA				
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Executive Secretary

9/9/82

Date

3637 (10-81)

Not referred to DOC. Waiver applies.

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CONFIDENTIAL ATTACHMENT

Executive Registry
82-5891

OFFICE OF THE SECRETARY OF THE TREASURY
WASHINGTON, D.C. 20220

September 9, 1982

MEMORANDUM FOR	STATE	MR. L. PAUL BREMER, III
	AGRICULTURE	MR. RAYMOND LETT
	CIA	[redacted]
	COMMERCE	MRS. HELEN ROBBINS
	USTR	MR. DENNIS WHITFIELD
	OMB	MR. ALTON KEEL
	ENERGY	MR. WILLIAM VITALE
		MR. NORMAN BAILEY

STAT

SUBJECT: Working Group on Barter Arrangements of the Interagency Group on International Economic Policy (IG-IEP)

A Working Group on Barter Arrangements of the IG-IEP will meet on Tuesday, September 14, at 10:00 a.m., in Room 4125 at the Department of the Treasury.

The Working Group, chaired by Charles Schotta, will discuss the attached paper, "Swapping Excess U.S. Grain for Oil", and develop a work program for preparing a report on this issue for the IG-IEP.

Please telephone the name of your representative to Laura Duckett (566-5881) by noon, Monday, September 13.

David E. Pickford
Executive Secretary

CONFIDENTIAL ATTACHMENT

Not referred to DOC. Waiver applies.

Swapping Excess U.S. Grain for Oil

The possibility of swapping surplus U.S. grain and other agricultural products for oil from countries with excess production capacity appears feasible -- and could be attractive.

There may be advantages to both parties -- the U.S. giving up excess agricultural reserves on which we pay storage costs in exchange for oil for the Strategic Petroleum Reserve (SPR); and the other country receiving agricultural commodities in exchange for the oil it may be unable to sell due to OPEC restrictions. Moreover, a successful barter arrangement could support U.S. agricultural exports and relieve budgetary pressures to revise U.S. agricultural support programs.

Surplus U.S. wheat and corn worth about $6.5 billion is held primarily in farmer-owned reserves, which the Government cannot obtain without purchasing it from the farmers. The U.S. Government itself owns only about $800 million of this surplus, which is roughly equivalent to 23 million barrels of oil at the average SPR acquisition cost of $34.75 per barrel (including transportation). This is the only U.S. surplus grain which the Government could currently utilize in a barter agreement for oil. To bring the privately-held portion of the reserve into a barter arrangement would require the Government to enter the grain marketing business.

Surplus stocks of dairy products, valued at $1.5-$2 billion are also available, but the market for these commodities is much more limited.

OPEC pricing and production policies have resulted in balance of payments deficits and in combined excess oil production capacity of over 3 million barrels per day in Nigeria, Libya, Venezuela, Iran, Algeria, and Indonesia. These countries might be willing to provide additional oil for the SPR without regard to OPEC oil price minimums or production limits. If current government-owned stocks of grain were bartered for oil, this could provide about twenty percent of the approximately 200,000 barrels per day of oil we expect to add to the SPR during the coming year. Our recent arrangements to purchase oil from Mexico for the SPR may, for example, have an impact on this concept.

Basic legal authority exists for agricultural barter arrangements through the Commodity Credit Corporation (CCC). Current law appears to permit acquisition of oil for the SPR through barter. During the 1950's and early 1960's, the CCC bartered $1.6 billion in commodities for strategic stockpile acquisitions. Last year, the Administration arranged a $15 million barter of dry milk for Jamaican bauxite.

Classified by Charles Schotta
☒ Declassify ☐ Review for
Declassification on 9/8/88

Before such barter arrangements of U.S. Government-owned commodities for oil can be contemplated, the following aspects must be explored in detail:

- -- whether in principle the Government should buy additional grain;
- -- the budget impact of such purchases;
- -- the relative costs of storing grain and oil;
- -- other budget costs;
- -- the implications of such barter arrangements for U.S. domestic agricultural policies and for U.S. GATT obligations and initiatives; and
- -- target countries for potential barter deals.

Prepared by: Treasury/IC
September 8, 1982